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The Manufacturers Hanover
Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

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Consumer Spending Is Stronger . . .

Although retail sales declined in April for the first time in almost a year, consumer spending is probably stronger than the numbers indicate. For one thing, the April figure is an advance estimate by the Department of Commerce based on the early reporting of a small sample of the final survey. This will be followed by at least two revisions, with the final outcome probably differing not only in magnitude but also possibly in direction. For example, the December, 1980 estimate was revised from a 1.3 per cent decline to a 0.8 per cent gain while the advance estimate of a 0.1 per cent increase for March was raised to 0.4 per cent.

The one per cent drop in the nation's retail sales in April, month-over-month, was caused by sagging auto sales. When these are excluded, overall sales rose by nine-tenths of one per cent, which represents a greater gain than during the month before. Sales of nondurable goods—those items which have a useful life of less than three years—increased by one per cent, led by a 1.3 per cent gain at food stores, 1.4 per cent at gasoline stations and 1.6 per cent at apparel and accessory stores. However, these gains were more than offset by the sharp decline in sales of durable goods—those products with a useful life of more than three years. Sales of hard goods dropped by more than five per cent, primarily as a result of the steep fall in motor vehicle sales.

The end of manufacturers' rebates on new car purchases resulted in more than a 25 per cent drop in unit sales in April, compared with the previous month, as sales slumped to a seasonally adjusted 5.8 million unit annual rate. This weakness continued into May; car sales were at a 5.7 million unit clip during the first ten-day selling period. Similarly, because of the earlier slump in housing starts, sales of building materials, hardware and garden supplies declined by almost one per cent.

. . . Than The Numbers Suggest

Consumer optimism over future business and employment prospects increased again in April. The monthly Consumer Confidence Index reported by the Conference Board jumped by 3.4 percentage points in April on top of a sizable ten-point gain in March. The Consumer Sentiment Index compiled by the University of Michigan posted a 5.9 percentage point increase—the largest rise since last September.

Partially as a result of their cheerier outlook, consumers bought $3.11 billion more on credit in March than they repaid on old debts. This was the largest growth in outstanding consumer credit in 18 months. Automobile credit outstanding increased by 72 per cent and was responsible for more than half of the overall advance, but all other categories posted gains as well. Revolving credit, which includes credit card purchases at retailers, gasoline companies and credit cards and check credit at commercial banks rose by a seasonally adjusted $587 million in March, up from $491 million in February. Credit owed for mobile homes increased by $88 million after contracting by $47 million the month before. However, because automobile sales declined since March, this hefty increase in consumer credit outstanding did not likely repeat in April.

Although the willingness by consumers to incur greater levels of debt has been growing, their ability to spend has not been impaired. In fact, people may well have additional purchasing power which traditional analysis does not reveal. For example, due to the sharp rise in existing home prices, many homeowners have realized substantial gains in equity on their homes in recent years which, either by selling these homes or by assuming second mortgages, can result in substantial increases in household liquidity.

In addition, the ever-increasing number of two-income households has reduced the risk associated with carrying high levels of debt since it is unlikely that both spouses will lose their jobs at the same time. The percentage of two-income families grew from 45 per cent of all married couples to 46.6 per cent between 1968 and 1975—then surged to 56.8 per cent by yearend 1980.

Interest Rates . . .

Both short- and long-term interest rates continue to spiral upward. Reflecting the negative impact of

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rapid money supply growth and ongoing Federal Reserve efforts to slow it down, short-term interest rates increased by an average of 300 to 375 basis points during the month ending mid-May. Bond yields also moved sharply higher, as top-quality corporate bond interest rates increased as much as 75 basis points during the period. Yields on long-term governments, Federal agencies and municipal bonds also moved substantially higher.

But as a result of the recent $3.6 billion drop in M-1B during the statement week ending April 29 and the relatively moderate advance of the producer price index in April, the worst of the latest interest rate bulge may be behind us. Although the growth of M-1B, which has expanded at a seasonally adjusted 20.8 per cent annual rate over the month, is still far in excess of the Federal Reserve's annual target ranges, it should begin decelerating as the pace of economic activity fades and the rate of inflation, which is now expanding at single-digit annual rates, slows further.

. . . May Be About Ready To Peak

Although these developments would result in at least an easing of upward interest rate pressures, there are some near-term hurdles ahead which must

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 5/6/81	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	129.393	+ .880	+ 1.866
Loans to Depository Inst.	2.471	+ .193	+ 1.140
Float	2.647	– .597	– 1.451
Total Reserve Bank Credit	145.148	+ .518	+ 6.640
Treasury Deposits with Federal Reserve Banks	4.175	+ .639	+ 1.733
Currency Outside Banks	121.115	– .146	+ 8.613
Member Bank Reserves:			
Required	41.089	+ .085	– 3.113
Excess (Deficiency)	.475	+ .370	+ .144
Total Reserves Held	41.564	+ .455	– 2.969
Net Borrowed Reserves	1.798	– .200	+ .953
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	100.425	– 1.300	+27.792

Monetary Aggregates†		% Change Since Three Months Ago*	% Change Since Year Ago
M-1A	366.8	– 6.2‡	– 0.1‡
M-1B	430.9	+ 13.1‡	+ 11.5‡
M-2 (March '81)	1,713.8	+ 10.8	+ 10.1
L (February '81)	2,421.2	+ 12.7	+ 10.4

†Seasonally adjusted. * Seasonally adjusted annual rate. ‡Four-week moving average.

New York Money Market

Offering Rates 5/15/81	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	16.40%	15.40%	14.40%
* Federal Agencies	16.15	15.80	15.85
* Project Notes–Taxfree (46% Taxable Equivalent)	12.59	14.63	13.15
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	18.00	17.50	

‡Finance Company Paper–Prime		‡* Bankers' Acceptances	
5- 14 days	18.00%	Jun.	18.30%
15- 29 days	18.25	Jul.	18.20
30- 59 days	17.75	Aug.	18.00
60- 89 days	16.75	Sep.	17.70
90-179 days	15.63	Oct.	17.30
180-270 days	15.00	Nov.	16.50

‡Industrial Paper–Prime			
30- 89 days	18.38%	†Federal Funds Effective Rate	18.50%
90-120 days	18.13		

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	1st Q'81	$ 2,827	$ 2,731	$ 2,572
Gross National Product (1972 Dollars)*	1st Q'81	$ 1,509	$ 1,486	$ 1,502
Percent Change, Annual Rate	1st Q'81	6.5%	3.8%	3.1%
Change in Consumer Prices (all urban consumers)*	Mar '81	7.2%	12.0%	15.6%
Change in Producer Prices*	Apr '81	9.6%	15.6%	9.6%
Civilian Employment (Thousands of Persons)†	Apr '81	98,976	98,412	97,225
Unemployment as % of Civilian Labor Force†	Apr '81	7.3%	7.3%	6.9%
Personal Income*	Mar '81	$ 2,335	$ 2,317	$ 2,101
Leading Indicators Composite Index (1967=100)†	Mar '81	137.1	135.2	131.5
Industrial Production Index (1967=100)†	Apr '81n	152.8	152.2	148.3
Net Change in Consumer Installment Credit†	Mar '81	$ 3.11	$ 2.00	$ 0.65
U.S. Merchandise Trade Balance†	Mar '81	$ 0.48	–$ 2.16	–$ 2.68
Plant and Equipment Expenditures*	2nd Q'81	$317.29(a)	$310.59(a)	$294.36
Private Housing Starts (Thousands of Units)*	Mar '81	1,284	1,214	1,040
New Construction Expenditures*	Mar '81	$ 248.0	$ 254.0	$ 237.1
Total Business Inventories†	Mar '81n	471.8	470.8	443.0
Total Business Sales†	Mar '81n	345.9	346.4	310.3

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

be overcome before the trend in interest rates reverses itself and begins a downward descent. Among the more important is the surge in the money supply in early May reflecting the distribution of Social Security payments and other Federal government entitlements – seasonal adjustment notwithstanding. Then there is the fate of the Administration's personal income tax cut proposals in Congress and a sharp bulge in commercial and industrial loans outstanding during the past month. Until these factors are digested by the markets, interest rates will not move down.

When interest rates do decline, they may not go straight down. The declines will reflect a softening in the pace of economic activity, a continued deceleration in both the rates of inflation and money supply growth and a moderation of short-term business credit demands. On the other hand, the economy could remain strong, the rate of inflation might accelerate or a highly stimulative personal income tax package may emerge from Congress. Any or all of these developments would tend to break the descent. Thus it would appear that the interest rate decline will occur in fits and starts and will not become significant until later this year or in 1982.

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (4/29/81)	114,178	+ 1,122	+18,500
New York City (4/29/81)	28,308	+ 7	+ 6,503
Commercial Paper (4/29/81)	137,435	– 306	+14,984

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

	Latest Week	Change Since Week Ago	Change Since Year Ago
Weekly Reporting Large Commercial Banks			
Nationwide (4/29/81)	174,661	+ 2,296	+13,412
New York City (4/29/81)	51,431	+ 789	+ 4,287

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (4/29/81)	430,643	+ 3,162	+30,073
New York City (4/29/81)	101,936	+ 1,353	+11,392

Financial Markets

	Friday 5/15/81	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	16.55%	– .75	+ 8.17
180-Day Bills†	15.45	– 1.50	+ 6.67
Longest Bills†	14.45	– 1.65	+ 5.23
Recent Issues:			
14 1/2s 4/30/83	14.95	– .71	
13 3/8s 3/31/85	14.02	– 1.43	
14 1/2s 5/15/91	14.22	+ .02	
13 7/8s 5/15/11	13.54	– .21	
Municipals:			
Bond Buyer–20 Bond Index* (5/14/81)	10.83%	– .07	+ 3.39
Blue List Total ($ Million)	$ 760	+ $ 39	– $ 143
30-Day Visible Supply ($ Million)	$1,873	– $ 55	– $ 455
Total	$2,633	– $ 16	– $ 598
Corporates:			
Moody's Aa Composite (5/14/81)	14.89%	– .24	+ 3.07
Money Mgr.–30-Day Supply ($ Million)	$5,867	– $661	+ $3,605
Stocks:			
Dow-Jones Averages:			
Industrials	985.95	+ 9.55	+ 159.41
Transportation	425.80	+ 7.40	+ 167.04
Utilities	108.91	+ 3.35	– .26
65 Stocks	383.57	+ 5.86	+ 84.24
Standard and Poor s 500 Stocks	131.96	+ .30	+ 24.61
N.Y.S.E. Composite Index	76.54	+ .41	+ 15.31
N.Y.S.E. Avg. Daily Vol. for Week (000's)	41,844	– 2,410	+ 6,348

* 46% Taxable equivalent 20.06%.

† Bond equivalent.

International Rates

	Friday 5/15/81	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	18.50%	18.00%
1 month	19.25	19.38
3 month	19.56	19.63
6 month	18.69	18.88
1 year	17.56	17.75
EURODOLLAR BONDS Average Yield		
Medium Term (5 to 7 yrs.)	14.75%	14.30%
Long Term (7 to 15 yrs.)	14.38	14.40

FOREIGN EXCHANGE SPOT RATES

New York Opening (5/15/81)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.02674	37.40
Canada	.8329	1.2006
Denmark	.1385	7.2200
France	.1808	5.5300
Germany	.4354	2.2970
Italy	.0008749	1143.00
Japan	.004480	223.20
Mexico	.04156	24.06
Netherlands	.3917	2.5530
Switzerland	.4831	2.0700
U.K.	2.0753	.4819

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